

July 1, 2002

The Mayor and Members of the Durham City Council:

The Adopted FY 2002-03 Budget of \$260,854,072 includes the following rate changes from FY 2001-02:

- **Property Tax Rate:** The FY 2002-03 Budget includes a property tax rate of 54.5 cents, which is a 1.1-cent increase over the FY 2001-02 tax rate and a 0.5-cent decrease from the proposed FY 2002-03 budget.
- **Water and Sewer Rates:** The FY 2002-03 Budget includes an increase in water and sewer rates. Also, the customer service charges have been converted from a flat charge per bill to a variable rate based on meter size. Based on these changes, the typical residential water and sewer bill will increase by 5.28%.
- **Yard Waste Fee:** The FY 2002-03 Budget includes a new \$50 annual fee for those customers using the City's yard waste collection service. This fee is expected to generate over \$1 million in revenue.

**Review Process.** On May 20, 2002, I presented my proposed operating budget for FY 2002-03. The proposed budget to be recognized in the budget ordinance, totaling \$257,311,973, was prepared with the assumption that the tax rate would increase by 1.6 cents to 55 cents per \$100 of assessed valuation. The City Council reviewed this proposed budget after receiving my budget message. A copy of the proposed budget was available for public inspection in the City Clerk's Office, as required by State Statute, as well as the main branch of the Durham County Library.

Upon receipt of the Manager's Recommended FY 2002-03 Budget on May 20, the City Council began its review. The City Council reviewed the recommended budget on May 28 – 30 and June 4. Also, the City Council received citizens' comments concerning the proposed budget at its regularly scheduled meeting on June 3. The June 4 budget work session was continued to Tuesday evening, June 11. At the continued budget work session on June 11, the City Council reviewed the flagged items and took action on several flagged items for either inclusion in or elimination from the Preliminary FY 2002-03 budget.

**Major Issues.** The City Council discussed the following major issues during its deliberations concerning the FY 2002-03 Preliminary Budget:

- **Solid Waste Collection Fees.** The Preliminary Budget included a new solid waste availability fee of \$40 per year from those customers using roll-out carts. The City Council voted to eliminate this fee from the FY 2002-03 Budget, which resulted in the deletion of \$2.4 million in program revenue. The City Council accepted the proposed user fee for yard waste collections, ratifying the additional \$1,066,848 that was included in the Preliminary Budget.
- **Pay and Compensation Issues.** The City Council voted to reduce the amount of employee merit increases from 3% to 2% effective on each employee's anniversary date. This resulted in a reduction of \$632,000 in the General Fund nondepartmental account. After much discussion, the City Council voted to maintain the other components of the proposed compensation program, including the amounts budgeted for longevity and 401(k) contributions.
- **Maintenance of new thoroughfares.** The Preliminary Budget did not include funding for the following items: 1) an additional landscape maintenance crew in the Public Works Department for the maintenance of medians and shoulders along the recently opened Martin Luther King Jr. Parkway, and 2) street lighting for new and widened thoroughfares, such as Martin Luther King Jr. Parkway, Fayetteville Road, and Guess Road. The City Council voted to add \$290,000 for a new landscape maintenance crew and \$102,000 for new street lights for the three thoroughfares.
- **Reduction of General Fund Transfer to Transit Fund.** The City Council voted to reduce the amount of funds transferred from the General Fund to the Transit Fund by \$1,366,682. To accomplish this, the amount of funds transferred from the Transit Trust Fund to the Transit Fund was increased by a like amount. The City Council recognized that the Transit Trust Fund is not a sustainable source of revenue for transit operations. However, the City will initiate discussions with the Triangle Transit Authority (TTA) this fiscal year to explore the possibility of merging the City's system into TTA. A feasibility analysis of the potential merger will probably take two fiscal years to complete. The Transit Trust Fund will be used to help offset the DATA system's operating deficit while this analysis is undertaken.
- **Level of Fund Balance in the General Fund.** As noted in the Letter of Transmittal, the Preliminary Budget was prepared with an appropriation of \$1,361,515 from fund balance, which would leave the fund balance level at 10.56% of adjusted proposed FY 2002-03 appropriations. At one point, the City Council voted to increase the appropriation by \$705,000, to a total appropriation of \$2,066,515, with a resulting fund balance level of 10% of adjusted proposed FY 2002-03 appropriations. However, staff review of the FY 2001-02 revised revenue and expenditure estimates indicated that departments would not save as much from their operating budgets as had been previously projected. Based on that review, staff recommended reducing the total appropriation by \$1,351,515, to

\$715,000 in order to maintain a fund balance level of 10%. Staff recommended two adjustments to offset the reduction: 1) Revenues of \$425,000 from a future land sale were recognized, and 2) the transfer from the General Fund to the Transit Fund were reduced by an additional \$926,515. The Transit Trust Fund transfer increased to \$2,293,197 as a result of this action.

- **Reduction of recommended tax rate.** The Preliminary Budget included a tax rate increase of 1.6 cents, which would have changed the tax rate from 53.4 cents to 55 cents per \$100 valuation. The City Council voted to reduce the tax rate increase by 0.5 cents, or \$725,000 in property tax revenue. This resulted in a tax rate of 54.5 cents. To partially offset the loss of revenue, the City Council voted to transfer \$600,000 from the Downtown Business Assistance Fund. (An additional \$151,016 was appropriated from the Downtown Business Assistance Fund to restore funding for the Emergency Management function.)
- **Water and Sewer Rates.** The FY 2002-03 Preliminary Budget includes rate increases for both consumption and service charges effective July 1, 2002. After the City Council received the Preliminary Budget, staff continued to refine the Water and Sewer Fund budget in order to reduce the requested consumption and service charge increases. In order to reduce the consumption charges, staff recommended that the adoption of a new capital facility fee schedule in order to offset a greater portion of debt service related to the expansion of water supply, water treatment, and wastewater treatment. With the proposed increases, the capital facilities fees will be equal to 80% of the maximum allowable fee. Effective on September 1, 2002, the adopted water capital facility fees will increase by 16%, while the sewer capital facility fees will increase by 60%. The City Council adopted an ordinance to amend rates for water service, sewer service, and water and sewer service. This ordinance includes a combined consumption rate increase of 5.28% while changing the customer service charge from a flat amount per account to a fee based on meter size. The change in water and sewer rates are shown in the table below:

Rate Component	Current Charge	Approved Charge
Water Consumption	\$1.23/hundred cubic feet	\$1.17/hundred cubic feet
Sewer Consumption	\$1.99/hundred cubic feet	\$2.22/hundred cubic feet
Total	\$3.22/hundred cubic feet	\$3.39/hundred cubic feet

The combined rate of \$3.39 per hundred cubic feet is one cent below the combined rate of \$3.40 per hundred cubic feet that the City Council adopted in June 1993.

On June 17, the City Council adopted a budget ordinance for FY 2002-03 that reflects a plan of revenues and appropriations totaling \$259,967,072. At the same time, the City Council adopted a financial plan for the City's Risk Reduction Fund totaling \$10,169,050. (On August 5, 2002, the budget ordinance was amended to include \$887,000 in capital facilities fees that were omitted in error, bringing the correct total of the FY 2002-03 budget ordinance to \$260,854,072. This total is used in the Final FY 2002-03 budget document.)

The following summarizes the major City Council additions and deletions concerning the FY 2002-03 budget.

#### Citywide

- Decrease property tax rate by 0.5 cents for a reduction in revenues of \$725,000.
- Reduce amount of merit increase by 1% for a savings of \$632,000.

#### Fire Department

- Restore \$10,000 to the Vehicle Maintenance Budget.
- Restore \$10,000 cut to Specialized Supplies Budget

#### Parks & Recreation

- Provide \$15,000 for transportation from closed Public Housing sites to alternative sites.
- Restore \$50,000 to the Fishing Program at Little River Lake and Lake Michie.
- Add \$21,000 for Lead Testing for Seven Recreation Centers
- Decrease Parks and Recreation appropriation by \$82,000 due to receipt of grant funds
- Add \$25,000 to the Birchwood Neighborhood Recreation Center to cover the cost of utilities.

#### Property and Facilities Maintenance

- Recognize \$425,000 in land sale revenue for the University Drive parcel.

#### Planning Department

- Add \$30,000 for a Cell Tower Master Plan (with the cost split 50-50 between the City and County).

#### Human Relations

- Add Human Relations Specialist at a cost of \$42,810.

#### Human Resources

- Restore \$18,000 in funding for the Executive Learning Program to maintain it at the FY 2002 Level.

#### City Manager's Office

- Restore \$65,000 in funding for lobbying/grant writing contract.

#### Public Works

- Add \$65,000 for Landscape Maintenance crew for MLK Parkway.
- Add \$290,000 for thoroughfare lighting on MLK Parkway, Fayetteville Rd. and Guess Rd.

#### Office of Employment & Economic Development

- Increase transfer from Downtown Business Assistance Fund by \$751,016.

#### Non-City Agencies

- Restore Durham Affordable Housing Coalition to 96.5% of FY 2002 Level at a cost of \$13,700.
- Add \$29,915 for the Durham Historic Preservation Society, contingent upon submission of a work plan.

**State Reimbursements.** As I noted in my Letter of Transmittal, the local governments in the State do not have any assurance that any of the State-shared revenues will be held harmless for FY 2002-03. This budget was adopted under the assumption that the State will hold all of the local government reimbursements for tax revenue repealed by the General Assembly - intangibles tax, inventory tax, and homestead exemption, totaling \$3.6 million and Powell Bill (gas tax) \$.5 million, totaling \$4.1 million. In order to absorb the loss of State reimbursements, the following programs have been either reduced or suspended:

Item	Amount
Contribution to 401(k) from 3% to 5%	\$800,000
Maintenance initiative	1,000,000
"Pay-As-You-Go" component of the City's Capital Improvement Program	\$1,800,000
<b>TOTAL</b>	<b>\$3,600,000</b>

During the short session of the General Assembly, the North Carolina League of Municipalities and the North Carolina Association of County Commissioners have asked the legislature to accelerate the effective date for replacing the reimbursements for previously repealed local taxes by authorizing an additional one-half cent local sales tax. If the reimbursements are successfully replaced with the sales tax or additional revenue, then the City Council could amend the FY 2002-03 budget to include the replacement revenue and restore the three programs listed above.

**Major Initiatives.** I also call your attention to Section II of the budget document related to the City Council priorities. This section contains the major initiatives that departments will complete this fiscal year to make progress towards your priorities for FY 2002-03.

I, along with the City staff, look forward to carrying out your adopted plan of service for FY 2002-03.

Sincerely,

Marcia L. Conner  
City Manager

May 20, 2002

The Mayor and Members of the Durham City Council:

I am pleased to submit the Preliminary Budget for FY 2002-03 for your review and consideration. As you are aware, economic uncertainties have made this a challenging budget year and have forced us, as a city, to re-examine our priorities, to look beyond the obvious in the search for efficiencies, and to sharpen our focus on providing basic city services.

At City Council's January retreat, members adopted the following priorities for the upcoming year: Economic Development and Poverty Reduction; Fiscal Responsibility; Managing Growth; and Crime Reduction. Along with our mission to improve the quality of life in our community by delivering cost-effective, highly responsive services with integrity and friendliness, these priorities guided our planning, as you will see on the departmental pages outlined in this budget.

You should know, however, that meeting Council's request to provide funding and align City services to address these priorities while maintaining the current tax rate, has been especially difficult in light of the revenue shortfalls that the City is experiencing, including State-shared revenues and lower than expected sales tax revenues.

In February 2002, Governor Mike Easley declared a state of fiscal emergency and froze payment for certain long-standing municipal revenues totaling almost \$4.8 million of City of Durham funds for 2001-2002 to help balance the state's budget. At this point, it is unlikely that this revenue will be returned.

Additionally, the economy has been in a recession since April 2001, as evidenced by the City's sales tax revenues, which are 7 % below last fiscal year. Also, the events of September 11, 2001 exacerbated a slowed economy because of the subsequent decrease in business travel, which adversely affected the City's hotel/motel tax revenues.

## **Preparations Made in Advance**

To address expected projected revenue shortfalls, the City administration took action in October by freezing almost \$3 million of appropriations. Later in December, to address the State's pending freeze, departments were asked to hold additional spending by freezing travel, training, capital outlay purchases, and hiring for vacant positions. Additionally, suspending capital projects funded with pay-as-you-go funds and 50% of the funding for the new maintenance initiative resulted in an overall reduction of \$9.3 million from the FY 2001-02 budget.

The resulting savings from the budget reductions exceeded the revenue shortfall by \$1.4 million, which will be placed in Fund Balance on June 30, allowing the City to access these funds to help balance the FY 2002-03 budget.

## **Fiscal Year 2002-03 Budget**

Here are the highlights:

- **Annual Operating Budget:** The total operating budget is proposed at \$157,079,552, a 2.25% increase over the adopted FY 2001-02 budget of \$153,625,573. This budget funds a total of 2,094 positions, 23 fewer positions than last year. Given the fiscal challenges facing our FY 2002-03 budget and the adverse affect it will have on our revenues both directly and indirectly, this budget proposal assumes that the State will withhold all of the local government reimbursements for tax revenue repealed by the General Assembly – intangibles tax, inventory tax and homestead exemption, and Powell Bill funds – totaling \$4.1 million.
- **Pay-As-You-Go Capital:** This program consists of investment income and totals \$1.8 million for FY 2002-03. Funding has not been included in the preliminary budget for this program; however, should state funds be reinstated, or additional revenues identified, this program could be reinstated for FY 2002-03.

## **Revenues**

**Property Tax:** This budget assumes a property tax rate increase of 1.6 cents, a three percent increase, raising the current tax rate from 0.534 cents to 0.55 cents per \$100 of assessed property value. The assessed value of an average single-family home at \$150,000 would receive an annual increase of \$24 in annual taxes.

This increase is needed to cover approximately \$2.3 million of increased debt service on the 1996 bond referendum approved by Durham voters. The FY 2002-03 General Fund includes equivalent property tax support of: 0.85 cents to fund the

Civic Center; 2.61 cents for DATA, and a total of 2.6 cents for debt service associated with the 1996 referendum.

According to figures supplied by the Durham County Tax Administrator, the City has experienced property tax base growth of 7.4% from the FY 2001-02 revised estimate. This growth will generate an additional \$4.5 million in revenue for the City for its current operations and obligations before factoring the proposed tax increase. Uncollected taxes for FY 2002-03 are projected at \$2.7 million, as compared to \$2.5 million for last fiscal year. However, efforts are ongoing to increase the collection rate.

**Sales Tax Receipts:** At this time, the City has received 100% of the sales tax revenue that it will recognize for FY 2001-02. Sales tax recorded for FY 2001-02 declined by 7% compared to receipts for FY 2000-01. The portion of sales tax that is received for retail sales delivered in Durham County declined by over 9%; the portion of sales tax that is received for statewide activity declined by 2%. The proposed FY 2002-03 budget assumes a growth rate of 2% for both the point of delivery and statewide components, consistent with projections from State fiscal analysts. To that projection, an additional \$1.3 million is added for net retail activity associated with Southpoint Mall.

**State-shared Revenues:** As the City Council begins to review the Preliminary Budget, the local governments in the State do not have any assurance that any of the State-shared revenues will be held harmless for FY 2002-03. This budget is prepared under the assumption that the State will hold all of the local government reimbursements for tax revenue repealed by the General Assembly - intangibles tax, inventory tax, and homestead exemption, totaling \$3.6 million and Powell Bill (gas tax) \$.5 million, totaling \$4.1 million. In order to absorb this loss of revenue, the following programs have been either reduced or suspended, and I would recommend that these programs be reinstated in this priority:

Item	Amount
Contribution to 401(k) from 3% to 5%	\$800,000
Maintenance initiative	1,000,000
"Pay-As-You-Go" component of the City's Capital Improvement Program	\$1,800,000
<b>TOTAL</b>	<b>\$3,600,000</b>

During the upcoming short session of the General Assembly, the North Carolina League of Municipalities and the North Carolina Association of County Commissioners will ask the legislature to accelerate the effective date for replacing the reimbursements for previously repealed local taxes by authorizing an additional one-half cent local sales tax. If the reimbursements are successfully replaced with the sales tax or additional revenue, then the City Council could amend the FY 2002-03 budget to include the replacement revenue and restore the three programs listed above.



## **Fund Balance**

As a part of the FY 1999-2000 budget, the City Council adopted a resolution setting the fund balance in the General Fund at a floor of 12% of adjusted appropriations. The optimal level of fund balance is set at 15%, and any fund balance over 15% will be transferred to the Capital Projects Fund. In addition, by City policy, the use of fund balance is limited to the equivalent of four cents in a two-year budget cycle.

The Comprehensive Annual Financial Report for FY 2000-01 indicated that the level of fund balance in the General Fund fell below 12%, to 10.42% of adjusted FY 2001-02 appropriations. However, this level is still above the 8% minimum threshold recommended by the North Carolina Local Government Commission.

As the City continues to deal with the uncertainty with the economy and possible state actions, the prudent use of fund balance to balance the FY 2002-03 budget is an alternative to increasing the tax rate. The proposed budget for the General Fund appropriates \$1,361,515, the equivalent of 0.94 cents on the adjusted tax rate. After the proposed appropriation from fund balance, the estimated amount of fund balance at June 30, 2002 is \$13.4 million, or 10.56% of adjusted proposed FY 2002-03 appropriations.

## **Proposed Fee Increases**

**Yard Waste Fee:** The yard waste collection program is only used by a third of the City's 60,000 households. This is proposed to be an on-demand service, and customers will incur an annual charge of \$4.16 per month or \$50 annually.

**Solid Waste Availability Fee:** Many cities and counties charge fees for solid waste and recycling services or for using a disposal facility. All properties in the City that receive rollout cart service could be assessed an availability fee to cover the cost of providing and operating a waste disposal facility for the community. This fee can be added to the property tax bill and collected in the same manner. Other cities that have a fee include Charlotte, Greensboro and Raleigh. At \$40 per household, this fee is proposed to cover expenses related to the transfer station construction and operation, the monitoring and closure of the sanitary landfill and other solid waste management costs incidental to the handling and disposal of solid waste.

**Parks and Recreation:** To recover costs associated with athletics, the Parks and Recreation Department proposes to increase fees starting January 2003. The department continues to provide a balance with increasing cost recovery of approximately 26% of the cost of the programs and free activities for youth.

**Water and Sewer Rate Increase:** The City last raised water and sewer rates in June 1993, and decreased the water and sewer rates in November 1997. The FY 2002-03 Preliminary Budget includes rate increases for both consumption and service charges effective July 1, 2002. This rate increase is necessary because of the following factors:

- The City's contract with the Town of Cary to sell finished water expired on April 30 for committed sales. This loss represents \$2 million that had been used over the past two fiscal years to stabilize the water and sewer rates.
- The amount of water and sewer services used by customers has remained flat. Possible reasons for this situation include increased awareness of water conservation and the effect of a slower economy on businesses. Also, the City does not have as many businesses that consume large amounts of water for manufacturing processes as it once did.
- The City pays a sewer fee for those City residents and businesses located in areas served by the Durham County wastewater treatment plant. In the past, the City's rate was higher than the County's rate. With the rate increase enacted by the Board of County Commissioners last October, the County's wastewater use charge exceeds that charged by the City.
- The City's current service charge methodology fails to collect the amount of revenue necessary to recoup the expenses incurred for billing, customer service, and meter maintenance.
- The City has issued revenue debt for water and sewer system improvements in order to save its general obligation bond capacity for other purposes. The issuance of revenue bonds requires the City to enter into debt covenants that secure the operating revenue streams for debt repayment. These covenants require the City to maintain debt coverage ratios above 1.25 for parity debt and 1.0 for all debt. In the event that the ratios fall below these thresholds, the City is required to increase water and sewer rates in order to comply with the bond covenants. While the City has met its obligations, it has experienced some difficulty in meeting the overall debt ratio due to the flatness of the system's revenue growth.

The proposed rate increase is shown in the table below:

<b>Rate Component</b>	<b>Current Change</b>	<b>Proposed Charge</b>
Water Consumption	\$1.23/hundred cubic feet	\$1.29/hundred cubic feet
Sewer Consumption	\$1.99/hundred cubic feet	\$2.29/hundred cubic feet
Water Service Charge	\$2.19	\$2.68
Sewer Service charge	\$2.41	\$2.92

NOTE: Current and proposed rates are doubled for those customers located outside the City limits.

A typical family of four consumes 12 hundred cubic feet (CCF) in a bimonthly billing period. This proposed rate schedule would increase the family's bill from \$48.73 to \$56.53 per bimonthly period, or almost \$47 per year.

The City bills larger water and sewer customers on a monthly basis. A large, eat-in restaurant uses an average of 188.5 CCF per month. This proposed rate schedule would increase the restaurant's bill from \$697.85 to \$805.61 per month period, or over \$1,293 per year.

During the upcoming fiscal year, staff will review the current rate structure and evaluate alternatives for redistribution of costs to better reflect the differences between fixed and variable cost factors.

## **Operational Adjustments and Expenditures for Fiscal Year 2002-2003**

### **Staffing**

Staffing Adjustments have been made in order to address support for new initiatives to restructure existing operations, and to maintain the current level of service in law enforcement as follows:

- Twenty positions in the Police Department that were previously paid for by the Community Oriented Policing Services grants are fully funded for FY 2002-03 through the General Fund.
- All Fire Department positions are funded.
- Two new positions are proposed for the Internal Audit Department to implement the approved strategic audit plan.
- A Quality Control Specialist is proposed for the Emergency Medical Dispatch program in Emergency Communications. This provides a higher level of service intended to improve emergency medical dispatching.
- A Special Events position has been transferred from Parks and Recreation to Economic and Employment Development to focus on promoting special events in the downtown area.
- Property and Facilities Management has funded one real estate position to assist with acquisitions for the Barnes Avenue initiative, and two full-time and

- three part-time positions to perform maintenance at the Community Family Life Recreation Center at Lyon Park, which is scheduled to open in July 2003.
- Parks and Recreation has funded four positions to support operations of the Community Family Life Recreation Center at Lyon Park.

**Positions Proposed to be Eliminated:** The Preliminary FY 2002-03 budget includes the net deletion of approximately 23 positions of 2,094 authorized positions. Where there are incumbents in positions recommended for deletion, the City will attempt to place them in other vacant positions that match their skills and qualifications.

Funding of \$536,900, which is the equivalent of 15 frozen positions, has been re-allocated in Public Works to support temporary staff due to chronic turnover.

**Compensation and Benefits:** The FY 2002-03 budget proposal includes a 3% merit increase for all eligible employees on their anniversary dates. Also, the longevity program remains unchanged. Funding of \$169,000 for market adjustments is budgeted to ensure we remain competitive in our market.

**Retirement:** Funding of \$136,000 restores the retirement contribution from the City upon date of employment, and establishes a no-waiting period. This action brings us in line with comparable cities and counties across the state.

**Status of Pay for Performance:** As mandated by Council, the administration has begun the process of implementing a pay-for-performance plan for City employees. An organizational climate survey has been conducted to assess the readiness of the workforce, and we are developing organizational values that will be reflected in the program. It is anticipated that the new program will be developed by January 2003. Training and implementation will be included in the next phase.

**Health Insurance:** The City of Durham, like other public and private sector organizations, is experiencing the effects of increasing medical and pharmacy costs (at this time, a projected increase of 10- 12%). These costs affect the City's ability to maintain our current level of benefit plans. Several adjustments are being considered that will make it possible for the City to continue providing these valuable benefits at a reasonable cost to the City and to employees. Options being considered include adjusting co-pays and/or deductibles for coverage and increasing employee contributions. Plans are also being considered to empower employees to manage their own health care options. More information will be available when final health care costs are determined in July or August.

**Reduction in 401(k) Payment:** As stated earlier, the City proposes reducing its contribution to the 401K from 5% to 3%, a reduction totaling \$800,000. Public Safety contributions will be continued at 5%. Should State-shared revenues be

reimbursed, the City's contributions for other employees will be restored to the 5% level.

**Worker's Compensation Plan:** This plan is under review to determine what changes are necessary to fairly balance the needs of the organization and employees. Management will present the Insurance Subcommittee with recommendations for change in June and should be available prior to adoption of the budget.

## **Efficiencies**

Departments are continuing to look at ways to achieve greater efficiencies in services and programs. The clear focus has been on services and programs that have outlived their usefulness, that are duplicated by other agencies or that can be better provided by another agency. All areas in departments as well as across the entire organization are being examined closely to achieve efficiencies in services, programs and staffing.

- Inspections: To provide better customer service, a fire inspector responsible for reviewing plans is being transferred to the Inspections Department. This will allow customers to reach inspectors at one location, enabling builders to obtain Certificates of Occupancy more quickly.
- Housing and Community Development: The Housing Counseling program has been eliminated to avoid duplication of services already being provided by mortgage lending institutions and non-profits.
- A number of positions have been reallocated in the department of Housing and Community Development to allowable administrative cost centers in federal grant programs allowing general funds to be used for other purposes.
- The Customer Service function has been incorporated into the Public Affairs Office, creating the new office of Public Affairs and Citizens Assistance. One position has been eliminated and one downgraded to support this reorganization.

## **Reductions**

**DATA:** To gain efficiencies, DATA is examining ways to reduce costs. Plans are under review and a specific recommendation will be provided prior to adoption of the final budget. (\$324,000)

**Parking Enforcement:** Nine full-time and one part-time Police Community Service Officer positions have been eliminated. Level of services will remain the same, as the enforcement of parking ordinances will be assumed by police officers. Outsourcing of this function also is being considered. A data entry clerk remains in the Police Department for this purpose. (\$295,000)

**Public Housing:** Parks and Recreation will work with the Durham Housing Authority to provide transportation to other sites for after school programs and summer camps within a two-mile radius of each housing authority site. (\$206,000)

**Traffic Calming:** A moratorium has been proposed on the traffic calming program with capital funds reallocated to street paving and sidewalk construction. (\$230,000)

**Non-City Agencies and Arts Agencies:** Allocations to Non-City agencies have been reduced by 3.5 percent from FY 2001-02 funding. New requests are not being funded. (\$ 140,487)

### **Future Efficiencies and Reductions**

- The departments of Finance and Budget will be merged to achieve more efficiencies starting with the re-engineering of the purchasing and contracts process followed by enhancing our financial systems through improved technology.
- We propose to restructure City governmental services and departments to improve efficiency and customer service responsiveness. Special attention will be paid to Span of Control, in other words the ratio of supervisors to employees.
- We will seek proposals for outsourcing the following: meter reading, garage management and collection of delinquent fines, fees and property taxes.

### **Unfunded Items**

The following items are unfunded for FY 2002-03:

**Enterprise Resource Planning System-Phase 1:** This project will implement an Enterprise Resource Planning (ERP) system that will replace the current financial accounting and reporting, billing, and human resources systems. The current system is over 15 years old, utilizes outdated technology and is inefficient. The new system will expand accessibility, including Internet access for all users. The project also includes a data warehousing solution that allows integration of all other systems in the City with the ERP system so users will be able to generate reports using data from all City systems. The implementation of this system will allow for centralization of information. The project will also address strategic direction of the City's information technology plan including moving away from the mainframe environment. Total cost is estimated to be \$5 to \$8 million. Requested funding level provides for initial assessment. The current mainframe lease agreement will expire in approximately two years. **Cost: \$260,000**

**Street Resurfacing:** In 1999 a survey of the condition of Durham's streets was conducted and resurfacing needs totaling \$3 million were identified as immediate needs. Through FY 2002-03, about \$2 million of this resurfacing has been completed. Based on the miles of streets maintained and considering a very liberal resurfacing job life of 20 years, Durham should fund the resurfacing of 25 miles of streets, at a cost of \$1.25 million every year to ensure acceptable street maintenance levels. While the FY 2002-03 budget contains \$845,000 for street resurfacing, approximately eight miles of street resurfacing will fall behind schedule. **Cost: \$405,000**

**Fire Apparatus Replacement:** Fire apparatus have been on a delayed replacement schedule. The result has been a longer than average in-service life span for fire engines and ladder trucks. To accelerate the delayed schedule the first year cost for two additional fire engines is \$560,000

**Maintenance Initiative:** The FY 2002-03 budget does not include funding of \$956,000 to carry on the maintenance initiative established during last year's budget process. Projects that were scheduled for FY 2002-03 include:

- DAP Upgrades to Concession and Bathrooms
- City Hall Directional Signage
- DBAP Fire Monitoring System
- City Hall Fire Alarm
- DBAP Subroof Repairs
- Park Renovations
- DBAP Brick Veneer

## **2002-03 Priorities**

In spite of the economic challenges of this fiscal year, the City of Durham will continue to provide basic services and by continued commitment to Council priorities.

### **Support of City Council Priorities:**

**Economic Development and Poverty Reduction: Continuing Downtown Development:** The City Council has made the redevelopment of downtown Durham one of its main priorities. Since 2000, the Council has dedicated property tax revenues to fund redevelopment projects, including:

- Conducting an economic feasibility study for the Performing Arts theatre
- Beginning Woolworth demolition and issuing an RFP for new development at that site
- Completing design and beginning construction of streetscape project

- Planning for Parrish Street redevelopment, including commemoration of Black Wall Street and economic redevelopment
- Continuing efforts on other major projects which include: American Tobacco, Liggett Development, Heart of Durham project, Renaissance Center, and the Durham Station (Multi-Modal Transportation Center).

Other efforts include studying how to best use downtown assets, such as parking garages to complement the newly installed on-street parking spaces. Also, staff will identify strategies to attract developers for the redevelopment of “brownfield” sites in downtown Durham.

**North East Central Durham:** The Department of Housing and Community Development in partnership with the Durham Community, Housing Authority and the citizens of the area, has begun an initiative to redevelop this area of Durham. The first focus is the eight-block areas surrounding and including the 500 and 600 blocks of Barnes Avenue in North East Central Durham.

- **Barnes Avenue Initiative:** The City will complete the Redevelopment and Blight Study for Barnes Avenue and complete the acquisition of homes to be rehabilitated and for development of new construction.
- **Weed and Seed:** This refocused initiative, funded through a grant submitted by the Department of Housing and Community Development in the amount of \$275,000, will focus on abating gang activity, hiring a housing code enforcement officer and partnering with agencies to ensure a higher quality of life in this area.

**Economic Incentive Programs:** To encourage eligible small businesses and downtown businesses start or expand their operations, the City supports Economic Incentive Programs. A loan review committee comprised of volunteers with real estate and financial expertise is being established. To this end, the City Council has approved the allocation of \$225,000 of Community Development Block Grant funds to reestablish a Small Business Loan Program. In addition, the Downtown Business Assistance Fund, with a balance of nearly \$1.8 million, will be available for loans.

**Crime Reduction:** Crime reduction continues to be a primary goal for the City.

- **Resource Allocation in the Police Department to Abate Crime:** A major effort is underway to conduct a two-phased staff allocation study. The first phase will include the uniform patrol personnel and the second phase investigative services and non-sworn personnel. The purpose of the study is to evaluate how current police resources are assigned and determine efficiencies and needs within the organization. The study will also determine what the proper staffing levels should be within the organization. The study should be completed by August.



- The Police Department also is reallocating positions to supplement and enhance the gang resistance unit and STARS (Strategies to Abate and Reduce Senseless Violence) violent crime initiative.
- With the restructuring of code enforcement, we believe we can more aggressively address code violations not only in North East Central Durham, but also citywide. Also, a challenge grant has been proposed for Partners Against Crime to identify nuisance projects in neighborhoods.

#### **Fiscal Responsibility:**

- The restructuring of Finance and Budget will create a new Chief Purchasing Officer position to centralize the purchasing and contracts functions allowing for improved coordination and greater economies of scale.
- We will implement a new internal audit reporting structure and establish an audit committee to determine the annual work plan.

#### **Managing Growth:**

- **Unified Development Ordinance:** In the early 1990's Durham City and County set new standards for land use in the Triangle Region with the adoption of a single set of development regulations serving both the City and County. The merged subdivision ordinance and merged zoning ordinance benefited staff, elected officials, the development community and the general population. Now Durham is improving its regulations to the level of a Unified Development Ordinance [UDO]. The UDO regulations will better compliment adopted plans and respond to Smart Growth concepts. Some changes will be technical in nature and improve the efficiency of our development regulations. Others will be innovations that will respond to updated community goals and development trends. For example, the implementation of commuter rails will necessitate changes in design standards and residential densities. The firm of Duncan & Associates has been hired to assist with this project. Completion is scheduled for late summer of 2003.
- **Comprehensive Plan:** The Durham Comprehensive Plan will manage Durham's growth for the next 20 years. The Plan will be developed through the combined cooperation of the City, County and Durham Public Schools. A critical goal of the comprehensive plan will be to link growth with the provision of public facilities. This is a new approach to Comprehensive Planning in Durham that will assure that growth is fiscally sound and that quality of life is maintained. The Plan will also clarify basic governmental policies related to development. The Comprehensive Plan will use the framework of transportation corridors established by the 2020 Plan but will focus on planning for public facilities to meet existing and future needs. The Plan will guide other planning efforts and set priorities for the development of public

facilities and acquisition of land so as to minimize public costs. This project is closely related to the Joint Capital Improvement Program now under study. Departments participating in the Joint CIP initiative will also have an important role in the development of the Comprehensive Plan by defining public facility needs so that facilities can be coordinated with land use changes. These Departments will also have a key role in implementing the CIP policies of the plan.

- **Trails and Greenways Master Plan and Little River Plan:** During FY 2001-02, the City and County adopted the Greenways Master Plan and the Little River Plan. The implementation of these plans will provide a sense of place, offer more recreational opportunities, protect water quality, manage storm water runoff more effectively, and provide public access to scenic areas. The eventual development of a trail system throughout Durham will also offer citizens neighborhood connectivity without the use of automobiles.

## **Conclusion**

In closing, I would like to thank City of Durham department directors and their staffs for their hard work in crafting this budget. I would also like to thank the staff of the Budget and Management Department – Laura Gill, Elizabeth Partin, Valerie Anderson, Michael Bryant, Nancy Carroll, Nancy Law, Vincent Taylor, Sharon DeShazo and Pam Williams for their work in analyzing the budget requests and putting the documents together for City Council's review.

This has been a particularly challenging year given fiscal pressures caused by circumstances beyond our control. I believe this budget reflects our commitment to continue providing core services to our neighborhoods and to partner with the private sector to revitalize our downtown.

Work sessions will be held from May 28-30 and on June 4 and 6. The City Council will hold a public hearing to receive citizens' comments on the proposed budget on June 3. The budget is scheduled to be adopted on June 17, 2002.

The staff and I look forward to working with the City Council as you review the proposed budget.

Sincerely,

Marcia L. Conner  
City Manager